

SAN JUAN COUNTY, WASHINGTON
January 1, 1992 Through December 31, 1992

Schedule Of Findings

1. The County Should Implement Improved Internal Controls Over Cash Handling And Monitor Those Controls To Assure They Are In Place

During our audit, we noted a serious lack of internal controls over cash handling in many decentralized county collection points. We noted several weakness in the method cash was handled, recorded, and accounted for as listed below:

- a. Lack of timely deposits.
- b. Inadequate segregation of duties.
- c. Inadequate control of money being held in the department.
- d. Delay in restrictively endorsing checks.
- e. Use of unofficial rediform receipts.
- f. Use of preprinted receipts not monitored.
- g. Lack of monitoring that all receipts issued to the departments are accounted for through deposit.
- h. Lack of timely receipting.
- i. Lack of change funds requiring employees to use their own money to make change.

The county is responsible for establishing a system of controls which adequately safeguards the county's assets.

The Washington State Constitution Article XI, Section 15 states:

All moneys . . . Belonging to or collected for the use of any . . . municipal corporation, coming into the hands of any officer thereof, shall immediately be deposited with the treasurer, or other legal depositary to the credit of such . . . corporation . . . for the benefit of the funds to which they belong.

The cause of the inadequate cash handling controls in the county departments appears to be a lack of defined procedures or training in the proper procedures for handling the various cash activities in each department. In addition, the county has not established a system to ensure that cash handling controls are implemented when recommended.

As a result of inadequate cash management controls in the departments, there is an increased risk of undetected errors and irregularities and, where detected, inadequate procedures exist to assign responsibility.

We recommend that the county develop cash handling policies and procedures which will ensure that adequate cash handling controls are implemented in the county departments and that departmental staff is adequately trained and monitored in their use.

2. Administration Charges To Federal Programs Should Comply With Federal Regulations

Grant related administration expenditures of \$2,334.56 charged to the Community Development Block Grant (CDBG) (CFDA 14.228) did not comply with federal regulations. The administration charges were intended to cover employee time in the San Juan County Auditor's, Treasurer's, and Commissioner's offices for grant oversight. The county did not have a reasonable basis for the employee time allocated to the grant.

U.S. Office of Management and Budget's (OMB) Circular A-87, *Cost Principles Applicable to Grants and Contracts*, establishes standards for documentation and allowability of costs chargeable to federal grant programs. Among these standards are:

Payroll must be supported by time and attendance or equivalent records for individual employees. Salaries and wages of employees chargeable to more than one grant program or cost objective will be supported by appropriate time distribution records. The method used should produce an equitable distribution of time and effort.

All grantee departmental indirect costs . . . are eligible for allocation to grant programs provided they meet the conditions set forth in this Circular.

The effect is that the county's payroll allocation charged to the CDBG were not allowable under Circular A-87. Employees must either indicate on time records actual hours worked on a federal program or an indirect cost method must be used which is in accordance with OMB Circular A-87. The charges, allocated incorrectly, amounted to \$2,334.56 in 1992.

The county did not realize that a basis for the payroll allocation was necessitated under the grant. They were merely trying to deplete the remainder of the funding approved for general administration.

We recommend the county charge CDBG for documented costs directly related to the grant or that an indirect cost allocation plan be developed which is in accordance with OMB Circular A-87. (See accompanying Schedule of Questioned Costs.)

3. The County Should Avoid Lending Its Credit Or Making Gifts Of Public Funds

During our review of the public works department we noted the following instances of the county lending its credit or making gifts of public funds:

- a. The county public works department has an oral agreement that allows contractors to use county materials and then replace the materials at a later date. At least two contractors have taken advantage of the county's unwritten policy. One contractor has borrowed culvert and another contractor has taken fencing material. The second contractor borrowed five (5) rolls of woven wire at a total cost of \$907.50 without informing the county and then failed to return the materials. When confronted by county personnel concerning the missing fencing materials, the county stated that the contractor told them that he did not have the money to replace the fencing. A deal was then made between the county and the contractor whereby the contractor was allowed to work off the amount owed by installing wire around a Decatur Island property (cost unknown). As of the date of this report, the agreed upon project has not been performed. This could suggest that the county is not going to receive any compensation for the material, resulting in a prohibited gift of public funds.
- b. The county solid waste department bills, by telephone, customers that dump septage at the Orcas Island Landfill site. In one instance, a vendor is past due \$1,400 and is still being allowed to dump septage at the site. According to the county, this particular vendor is consistently late.

The *Constitution of the State of Washington*, Article VIII, Section 7, states in part:

No county, city, town or other municipal corporation shall hereafter give any money, or property, or loan its money, or credit to or in aid of any individual, association, company or corporation, except for the necessary support of the poor and infirm

The county's failure to establish controls to adequately monitor use and disposition of county assets and ensure prompt payment for services results in a direct violation of the state constitution, a loss of revenue to the county, and the county giving private businesses interest free loans and gifts of public funds.

We recommend that the county establish procedures to ensure that they are properly compensated for assets and services. We further recommend that the county discontinue its practice of lending its credit and making gifts of public funds.

4. The County Should Improve Controls Over Public Works Materials Inventory

During our review of the public works materials inventory we noted the following weaknesses:

- a. There are no written policies or procedures relating to the purchase, access, issuance, and accounting for inventory items.
- b. Although responsibility is assigned to supervisors for the inventory stored at the different sites, responsibility to ensure transfers, purchases, and issues are documented is not specifically assigned.
- c. There is virtually unlimited access to inventory by Public Works Department employees, and, in the case of Orcas Island, there is unlimited access to the public to inventory stored outside the shop. At Orcas Island, the shop compound is not enclosed, and culvert, pipe, and gravel are stored outside the shop. This practice resulted in a contractor borrowing county assets. (See Finding 3.)
- d. The current accounting system and procedures do not ensure that all materials used on a project are charged to a project. Fencing materials used on a project at the shop were not charged to that project until the problem was noted during physical inventory.
- e. Large inventory adjustments due to theft, misclassification, misplacement, and loss were noted at year end.

RCW 43.09.200 Division of Municipal Corporations - *Uniform System of Accounting* states in part:

The accounts shall show the receipt, use and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept or required to be kept, necessary to isolate and prove the validity of every transaction.

The American Institute of Certified Public Accountants (AICPA) in its *Codification of Statements on Auditing Standards*, AU Section 319, Appendix D, states in part:

Establishing and maintaining an internal control structure is an important management responsibility. In establishing specific internal control structure policies and procedures concerning an entity's ability to record, process, summarize and report financial data . . . some of the specific objectives management may wish to consider include the following:

Transactions are executed in accordance with management's general or specific authorization.

Transactions are recorded as necessary . . . (2) to maintain accountability of assets.

Access to assets is permitted only in accordance with management's authorization.

The recorded accountability for assets is compared with

existing assets at reasonable intervals and appropriate action is taken to any difference. (Emphasis added.)

The county has failed to implement basic accounting controls, making it difficult to hold individual employees responsible or accountable for their own activities. As a result, inventory is not adequately safeguarded to discourage theft and other irregularities or to discover these occurrences, as well as misclassifications and replacements, in a timely manner. This also resulted in several large inventory adjustments greater than \$5,000, and total adjustment increases of \$59,493 and total adjustment decreases of \$44,571. In addition, accounting records cannot be relied upon to determine the accurate costs of inventory, costs charged to projects, or to support the preparation of financial statements.

We recommend that the county improve controls over inventory as follows:

- a. Develop comprehensive written policies and procedures relating to purchase of, access to, issuance of, and accounting for inventory items.
- b. Designate responsibility to a limited number of employees who will be held responsible for the control of the inventory.
- c. Place all inventory items in limited access areas and control access to the public works central compound and inventory storerooms. All locks that allow access to the building and grounds should be changed and keys should be issued only to those authorized individuals requiring access to those areas. Access to inventory should be allowed to those employees who have been designated responsibility for the accountability over the inventory. All other individuals should be supervised when in storage areas.
- d. Establish basic inventory accounting procedures to control the issuance, return, and use of inventory, and to ensure the proper pricing of supplies and materials to projects performed.
- e. Monitor inventory balances regularly to preclude the large adjustments at year end.